

## 2. CO-OPERATIVES ARE DIFFERENT



**Dandenong and District Aborigines Co-Operative Limited.** One of 26 regional co-operatives, the Co-operative offers a variety of services to the Aboriginal community, including housing, legal aid, child care, family aid, health services and other welfare support. The Co-operative has 326 members and is financially supported by the Australian Department of Aboriginal Affairs, Department of Labor, Office of Child Care, Victorian Department of Community Welfare Services and from their own fund raising activities.

## CO-OPERATIVES ARE DIFFERENT

Democratic ownership and control of resources often seems an unreachable dream. It can, and has been achieved, however, by hundreds of millions of people around the world who have formed co-operatives.

Forged in the chaos of the industrial revolution at the turn of the 19th century, the ideals, philosophy and practice of co-operation have continued to fire the imagination of ordinary men and women beset by unemployment, economic perplexities and internal divisions. Then and now, they provide the rationale for an alternative, social and economic system based on sharing, democracy and the devolution of power.

All of us are the poorer for our inability to co-operate. Co-operatives are about individuals, groups and other co-operatives working together, rather than competing against each other.

Co-operatives provide the great bulk of the population with the opportunity and the incentive to gain an understanding of the elementary facts of economic life. They enable us to control the way our daily work is done, and the uses to which it is put.

In co-operatives, the profits or losses from work are our own, to be shared in proportion to work or transactions done. The role of capital is subordinated to the rights that every person in a co-operative has to an equal say and an equal share.

Co-operatives could become a practical vehicle for new arrangements which enable us for the first time to seize control of our lives as workers, consumers, tenants and investors. They could become the means for more Australians to participate more effectively in the making of economic decisions, and to share more fairly the fruits of profit and power.

It is hard to think of a social or economic function which is not carried on by co-operatives somewhere in the world. Production and distribution of goods, agriculture, marketing, credit, transportation, manufacturing, banking, health, insurance, housing, fisheries, and services of all kinds—co-operatives are engaged in all these and many more.

## HOW CO-OPERATIVES DIFFER

What distinguishes a co-operative from other forms of private or public organisations is its mutuality, its democratic structure and character, and that capital in a co-operative services the activity rather than individual benefit.

Co-operatives have a dual nature in that they have both social and economic objectives. As W.P. Watkins, a former Director of the International Co-operative Alliance commented:

“The real difference between co-operation and other forms of economic organisation resides precisely in its subordination of business techniques to ethical ideas. Apart from this difference, the movement has no basic, satisfactory reason for its existence”.

The prime objective of a co-operative is to provide for the common needs of its producer, consumer or worker members. Co-operative mutual aid is based on members combining, and together, defining and meeting their shared interests. There is often no mutuality in public and private sector organisations.

Co-operative principles require that democratic management structures are not only put in place, but remain there. Unlike an association or a company, a co-operative could not pass a special resolution distorting its democratic structure. Legislation ensures that each member of a co-operative retains equal voting rights. A basic principle is that each member is only entitled to one vote, regardless of how much share capital he or she owns.

Early in their history, trade unions saw co-operatives as a way of introducing principles of democracy into the economy. Co-operatives can provide the ultimate expression of industrial democracy in that they enable workers or consumers to take control of the means of production. Far from being opposed to unionism, co-operation shares many of the same purposes. In Italy, for example, 80% of workers in co-operatives are union members compared with 50% for private enterprise.

Those concerned about the supposed inefficiencies of democratic decision-making should take note that there is a large body of research indicating that participation in decision making has a positive impact on work output. Recent overseas research by Saul Estrin from the London School of Economics, Derek Jones from Hamilton College, New York and Jan Svejnar from Cornell University, New York indicates that worker participation has a positive effect on productivity, particularly where profit sharing is involved, and to a slightly lesser extent where there is individual capital ownership by workers. Analysis of the spectacularly successful co-operative region of Mondragon in Spain by British economists, Henk Thomas and Chris Logan, has demonstrated that industrial co-operatives can be significantly more efficient than

comparable companies—particularly where co-operatives provide support to co-operatives engaged in linked activities.

In a co-operative, because all the members—not just a few at the top—control the enterprise, motivation levels are high and management is made more accountable.

Co-operatives provide a unique opportunity for consumers to control the quality and the pricing of the services delivered to them. Unlike any other type of enterprise, in a consumer co-operative structure, the consumers are also the owners and are therefore capable of exercising decision-making control over the co-operative's policies.

To remain in business, co-operatives must be profitable, but the manner of dealing with the profit or surplus created, further distinguishes them from other types of business enterprise.

In a co-operative, any profit (surplus) is returned to the people who generated the surplus (i.e. the members), rather than to outside shareholders who simply supplied capital. Co-operatives have consistently sought to exclude investors who contribute only capital and expect a return on their capital by both interest and capital gain. The very first co-operative, the Rochdale Pioneers, learnt a bitter lesson when they were forced by outside investors to make decisions which led to the closure of their factory.

Membership of a co-operative is based on the benefits of membership participation, which arise from using the services, purchasing the goods and/or working.

Capital in a co-operative, then, has a much more restricted role than in a company. The amount of share capital does not determine voting rights. Profits are distributed to members on the basis of work done or transactions made with the co-operative, not on the basis of share capital held. Co-operatives have reserve provisions to ensure capital is retained so it can continue to serve its prime role in a co-operative of generating activity.

To ensure equality of opportunity in decision-making, co-operatives, unlike public or private enterprise organisations, are expected to have a commitment to member education. One catch cry heard within the co-operative movement is: "You can't control what you don't understand".

Finally, co-operators believe that more can be achieved by individuals and different types of co-operatives working together and complementing each other.

Co-operatives essentially form a third sector. They are a means of devolving decision-making power to those people most affected by the operations of an organisation.

## **CO-OPERATIVE PRINCIPLES**

The six co-operative principles which act as guidelines for co-operatives throughout the world and were formulated at the International Co-operative Alliance congress of 1966 are as follows:-

### **Open Membership**

Membership of a co-operative should be voluntary and available without artificial restriction or any social, political, racial or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.

### **Democratic control**

Co-operatives are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary co-operatives should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their co-operatives. In other than primary co-operatives the administration should be conducted on a democratic basis in a suitable form.

### **Limited Interest On Share Capital**

Share capital should only receive a strictly limited rate of interest, if any.

### **Equitable Distribution of Surplus**

The economic results arising from the operations of a co-operative belong to the members of that co-operative and should be distributed in such a manner as would avoid one member gaining at the expense of others. This may be done by decision of the members as follows: (a) by provision for development of the business of the co-operative; (b) by provision of common services; or, (c) by distribution among the members in proportion to their transactions with the co-operative.

### **Co-operative Education**

All co-operatives should make provision for the education of their members, officers, and employees and of the general public, in the principles and techniques of co-operation, both economic and democratic.

### **Co-operation Between Co-operatives**

All co-operative organisations in order to best serve the interest of their members and their communities should actively co-operate in every practical way with other co-operatives at local, national and international levels.

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While not departing from the spirit of the six international principles, MACC has attempted to tighten their interpretation in order to make their intent and relevance clearer in the light of experience with co-operatives in Victoria (see Chapter 5 for reformulation).